

21 June 2024

Our Ref: INS/TEC/6/20/6 Sub-file 12

By Email Only

To: Chief Executives of All Authorized Insurers (other than Marine Insurers, Captive Insurers and Special Purpose Insurers)

Dear Sir/Madam,

Countercyclical Adjustment in Equity Risk of Risk-based Capital Regime

In anticipation of the commencement of the Insurance (Amendment) Ordinance 2023 (“Amendment Ordinance”) and certain subsidiary legislation, including the Insurance (Valuation and Capital) Rules (Cap. 41R) (“RBC Rules”), on 1 July 2024 (“Commencement Date”), the Insurance Authority (“IA”) would like to draw your attention to the following in relation to the application of the countercyclical adjustment (“CCA”) for purposes of rule 49(2)(a)(ii) of the RBC Rules.

Pursuant to rule 49(2)(a) of the RBC Rules, the adjusted equity downward stress factor is the sum of the equity downward stress factor prescribed in Table 5 under the same rule and the most recent CCA to be specified by the IA from time to time in determining the risk capital amount for equity risk. In light of feedback recently obtained from the industry and that the CCA was determined some years ago, the IA will conduct a review study on the CCA, including analysis of industry equity portfolios reflecting market dynamics and risk exposures.

During the period between the Commencement Date and conclusion of the IA’s review study (“Interim Period”), applicable insurers can elect, by notification to the IA, to either:

- a) adopt the CCA which will be specified by the IA from time to time for optional adoption (based on the “CCA Generation Tool” specifications dated 9 July 2021), or
- b) set the CCA at zero,

for the purposes of rule 49(2)(a)(ii) of the RBC Rules.

For the purpose of the notification, the insurer should complete the form attached as the **Annex** to this Circular and upload it to the IA’s Central Dataset Collection Portal by **15 July 2024 (Monday)**. Such election is irrevocable, and takes effect from the Commencement Date. It will remain in effect for the entire duration of the Interim Period until the IA concludes its review study and announces further details regarding application of the CCA.

Should you have any queries in relation to the above matters, please contact your case officer or email us at rbc@ia.org.hk.

Yours faithfully,

Tony Chan
Associate Director
Policy and Legislation Division
Insurance Authority

Encl. (attached to email only)

c.c. Chairman, The Hong Kong Federation of Insurers
President, The Actuarial Society of Hong Kong